

How to Set the Right Price and Why it Matters

Pricing Part 2

Principles of Pricing
and



Burden and Labor Rates Done Right, Now and Forever

Get the Exclusive Excel Labor Rate and
Burden Templates here:

<https://herring-group.com/labor/>

(Link is in your chat box – just click it.)

Your Opportunity

		Annual Revenue 					
		\$2,000,000	\$4,000,000	\$6,000,000	\$8,000,000	\$10,000,000	\$12,000,000
Current Profitability 	3%	\$ 140,000	\$ 280,000	\$ 420,000	\$ 560,000	\$ 700,000	\$ 840,000
	4%	\$ 120,000	\$ 240,000	\$ 360,000	\$ 480,000	\$ 600,000	\$ 720,000
	5%	\$ 100,000	\$ 200,000	\$ 300,000	\$ 400,000	\$ 500,000	\$ 600,000
	6%	\$ 80,000	\$ 160,000	\$ 240,000	\$ 320,000	\$ 400,000	\$ 480,000
	7%	\$ 60,000	\$ 120,000	\$ 180,000	\$ 240,000	\$ 300,000	\$ 360,000
	8%	\$ 40,000	\$ 80,000	\$ 120,000	\$ 160,000	\$ 200,000	\$ 240,000
	9%	\$ 20,000	\$ 40,000	\$ 60,000	\$ 80,000	\$ 100,000	\$ 120,000

Danger - Pricing to Gross Margin

		Zero Burden Option	EXCLUDES Indirect Labor	INCLUDES Indirect Labor
Revenue		\$ 3,700	\$ 3,700	\$ 3,700
Labor costs assigned to a customer job		1,500	1,500	1,500
"Normal" labor burden	17.6%	-	265	265
Direct labor costs not assigned to a customer job (indirect labor)	18.7%	-	-	281
Gross profit (the "line")		2,200	1,935	1,655
<i>Gross margin for the job</i>		59.5%	52.3%	44.7%
Labor burden		545	281	-
Adjusted gross profit		\$ 1,655	\$ 1,655	\$ 1,655
<i>Adjusted gross margin</i>		44.7%	44.7%	44.7%

My Story



Today's Agenda

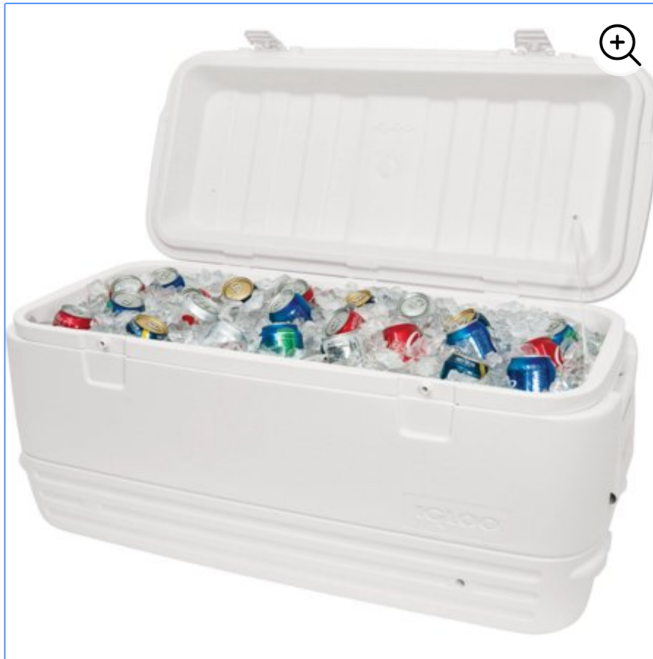
- Three Pricing Principles
- How to Recognize a Labor Cost Alignment Problem
- Calculating Labor Rate
- Calculating Labor Burden
- A Second Method for Overhead Recovery Calculations
- Six Warnings for Pricing Changes

Pricing Principles

- Price to cost
- Price to market
- Price to value

What do you sell?





Igloo 120-Qt Polar Cooler

★★★★★ [116 reviews](#) [Igloo](#) Walmart # 956139

\$59.00 List ~~\$69.99~~

Free 2-day shipping

Arrives by Wed, Jan 9 [Options](#)

Free pickup Wed, Jan 9

Ships to Birmingham, 1600 Montclair Rd [Options](#)

Qty:

1 ▼

Add to Cart

✱ Sold & shipped by [Walmart](#)

☰ [Add to List](#)

📺 [Add to Registry](#)



YETI® Ice Chests | Built for the Wild | yeti.com

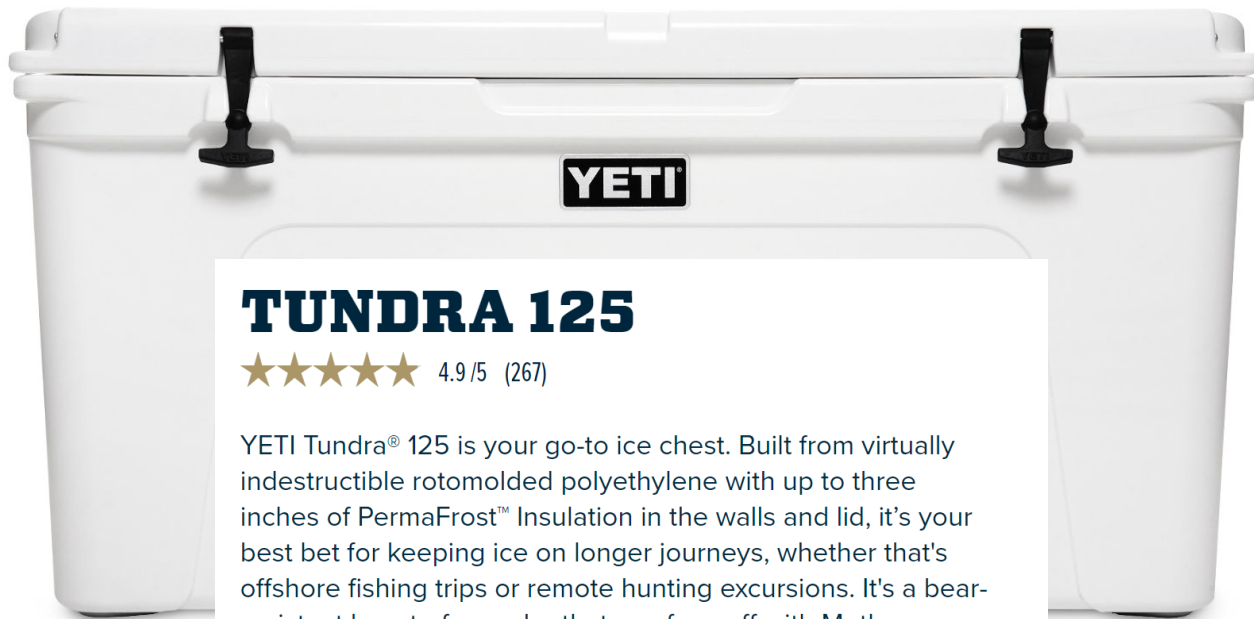
Ad www.yeti.com/ ▼

★★★★★ Rating for yeti.com: 4.6 - Return policy: Most items 30+ days

Wildly Stronger. Keep **Ice** Longer. The Last **Ice** Bhest You'll Ever Need. Shop Now. Grizzly Proof.

Coolers. Fast Shipping. 5 Year Warranty* Rambler Drinkware. Max **Ice** Retention. Premium **Ice Coolers**.

Perfect for Any Pursuit. Keep **Ice** For Days. DuraCoat Colors.



TUNDRA 125

★★★★★ 4.9/5 (267)

YETI Tundra® 125 is your go-to ice chest. Built from virtually indestructible rotomolded polyethylene with up to three inches of PermaFrost™ Insulation in the walls and lid, it's your best bet for keeping ice on longer journeys, whether that's offshore fishing trips or remote hunting excursions. It's a bear-resistant beast of a cooler that can face off with Mother Nature and live to tell the tale.

Note: This Tundra cooler comes with one dry goods basket.

The Numbers Tell the Story

- From 2013 to 2016, revenue more than doubled EACH YEAR
- Gross profit margin was nearly 50%
- Normalized operating profit margin (before interest and taxes) was more than 25%


How do customers define cost?

- Dollars
- Time
- Uncertainty


What do you sell?

Alignment – Step 1 in Path to 12%

Job Cost
Actuals



Job Cost
Estimates



QuickBooks
(Cash)

How do I know if I
have a problem
with labor cost
alignment?

Division	Hours			Labor Cost Act	Labor Cost Est	Actual	Estimated
	Hours Act	Hours Est	Budget Variance			Burdened Labor Rate	Burdened Labor Rate
Chemical Total	99.50	75.57	-23.93	\$2,035.86	\$1,577.89	\$ 20.46	\$ 20.88
Enhancement Total	911.82	590.04	-321.78	\$16,035.62	\$10,077.88	\$ 17.59	\$ 17.08
Maintenance Total	2,732.49	3,065.62	333.13	\$51,388.20	\$50,401.17	\$ 18.81	\$ 16.44

Aspire / Reports / Pivot Report Work Tickets

In Aspire:

Labor Cost Actual = Actual Hours * Actual Pay Rate * (1+ Assumed Labor Burden)

Labor Cost Estimate = Estimated Hours * Estimated Burdened Labor Rate

Alignment: Labor Information for Aspire

Labor
Burden



Enter each
Division's % for
Each Employee

Burdened
Labor Rate



Enter each
Division's \$ in
"Manage Items"



Alignment: Labor Burden and Markups

Costs ABOVE
the Gross
Profit Line in
QuickBooks



In Labor Burden



Costs BELOW
the Gross
Profit Line in
QuickBooks



In Markups
for Loaded
Labor Rate,
Materials,
Subs, etc.



Profit
Target



Specified
in MoneyBag



			OT	Total Labor Cost No	Burdened	Actual Wage Rate
	Hours	Base Cost	Premium	Burden	Cost	
Enhancement	1,335.65	\$19,398.33	\$489.51	\$19,887.84	\$22,827.70	\$14.52
Irrigation	1,510.46	\$24,969.56	\$2,648.69	\$27,618.25	\$30,765.07	\$16.53
Maintenance	15,682.33	\$215,356.82	\$6,744.23	\$222,101.05	\$261,607.29	\$13.73
Plant Health Care	651.67	\$10,464.33	\$98.19	\$10,562.52	\$12,830.58	\$16.06
Aspire / Reports / Pivot Hours						

$$\text{Base Cost} / \text{Hours} = \text{Actual Wage Rate}$$
 (if on IPS Payroll or if Wage Rates are updated manually)

Calculating Labor Rate and Burden

- In Excel / by division

Review: Determining Overhead Recovery (Markups)

- Review historical trends (Herring Group)
 - Each direct cost as a % of revenue
 - Each overhead cost category as a % of revenue
 - Preferably by Division
 - Faster
 - Works well if the company is stable or growing
- Budget dollars (common)
 - Revenue
 - Direct costs
 - Overhead costs
 - Preferably by Division

The Herring Group Path to 12%



Contact Slide

- Survey: <https://www.surveymonkey.com/r/LVRS82J>
 - Skip questions 1 and 6
- Get an Aspire Demo:
<http://info.youraspire.com/request-a-demo-0>
- Kevin Kehoe
 - kevin.kehoe@youraspire.com
- Greg Herring
 - greg.herring@herring-group.com

Six Warnings with Price Changes

- Coordinate burdened labor rate change with markup / target margin changes
- If you sell big jobs below the Aspire “standard pricing,” then your Aspire markups must be higher than what the spreadsheet indicated.
- Eliminate “miscellaneous charges” in kits when the actual costs are not costed to a job
- Test your changes in the sandbox on at least 10 proposals with varying cost mixes
- Develop “narratives” for all people selling
- Monitor conversion rates in Aspire after price changes

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<http://info.youraspire.com/request-a-demo-0>
- Kevin Kehoe
 - kevin.kehoe@youraspire.com
- Greg Herring
 - greg.herring@herring-group.com

Not used

Gold mining slide?

Benchmarking

CFO?

From 40,000 Feet

Working with The Herring Group on the Path to 12%

Working as part contractor (doing some work), part consultant (bringing CFO expertise) and part coach (encouraging results), The Herring Group serves landscape business owners challenged by growth. Using our proprietary Path to 12%, we install financial dashboards and operating systems that provide more profit margin for companies and more life margin for owners.

The Herring Group Path to 12%





Changing Reality



The Bad News:
What Got You Here,
Won't Get You There

The Good News:
The Data in Aspire is like a Gold Mine.